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National Security and  
International Affairs Division

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June 30, 2000

The Honorable Fred Thompson  
Chairman, Committee on Governmental Affairs  
United States Senate

The Honorable Joseph I. Lieberman  
Ranking Member, Committee on Governmental Affairs  
United States Senate

Subject: Observations on the Department of Defense's Fiscal Year 1999 Performance Report and Fiscal Year 2001 Performance Plan

As you requested, we have reviewed the 24 Chief Financial Officers (CFO) Act agencies' fiscal year 1999 performance reports and fiscal year 2001 performance plans required by the Government Performance and Results Act of 1993 (GPRA). In essence, under GPRA annual performance plans are to establish performance goals and measures covering a given fiscal year and provide the direct linkage between an agency's longer-term goals and day-to-day activities. Annual performance reports are to subsequently report on the degree to which those performance goals were met. This letter contains three enclosures responding to your request concerning key program outcomes and major management challenges at the Department of Defense (DOD). Enclosure I to this letter provides our observations on DOD's fiscal year 1999 actual and fiscal year 2001 planned performance for the key outcomes that you identified as important mission areas for the agency. These key outcomes are: (1) the U.S. maintains technological superiority in key war-fighting capabilities; (2) U.S. military forces are adequate in number, well qualified, and highly motivated; (3) combat readiness is maintained at the desired level; (4) infrastructure and operating procedures are more efficient and cost-effective; (5) reduced availability and/or use of illegal drugs; and (6) fewer erroneous payments to contractors. Enclosure II lists the major management challenges facing the agency that we and DOD's Inspector General identified, how the fiscal year 1999 performance report discussed the progress the agency made in resolving these challenges, and the applicable goals and measures in the fiscal year 2001 performance plan. Enclosure III contains DOD's comments on a draft of our report.

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## Results in Brief

DOD has made substantial progress in improving its Results Act reporting. For example, DOD identified and discussed the roles of federal agencies in crosscutting activities, added more information on its efforts to ensure the credibility of its performance information, and included initial goals and performance measures for financial management. However, the extent to which DOD has achieved the key program outcomes is not completely clear in its fiscal year 1999 performance report and fiscal year 2001 performance plan. One of the reasons for the lack of clarity is that most of the key program outcomes DOD is striving to achieve are complex and interrelated, and may require a number of years to accomplish. Another, however, is that DOD did not provide a full assessment of its performance. The report does not include any performance goals and measures related to two of six key outcomes. Also, reported measures often did not address a cost-based efficiency aspect of performance, making it difficult for DOD to fully assess the efficiency as well as effectiveness of its performance. Additionally, DOD's performance report and plan did not include goals or measures to assess progress in overcoming two of nine major management challenges confronting the Department.

Maintaining technological superiority in key warfighting capabilities is continuous by nature but can be assessed at a given point in time. However, DOD's measures do not do this, nor do the performance report and plan provide a full qualitative assessment of the extent of progress toward the goal. The report and plan include measures for procurement spending, the results of peer reviews of technology objectives, and the number of joint experiments conducted. A more informative treatment would include an assessment of the extent to which procurement dollars are being spent effectively—on buying the right array of weapons capabilities—and as efficiently as possible. It would also include an assessment of the extent to which DOD's technology objectives and other science and technology investments are being transitioned onto weapon systems and equipment. Further, a qualitative assessment could also be made on a point in time basis to assess warfighting capabilities.

DOD did not meet its goal for military forces that are adequate in number, well qualified, and highly motivated. It was able to recruit 92.5 percent of the enlisted military personnel it stated that it needed. The Department explained that this was primarily because the U.S. economy was robust and unemployment at a record low. In other words, military pay and benefits are not as competitive in a robust general economy. To attempt to improve the results of its recruiting efforts, DOD is increasing advertising and the number of recruiters and has authorized an increase in enlistment bonuses and college funds to the statutory maximum. It has also targeted recent changes in benefits and reenlistment incentives toward increasing first-term and second-term reenlistments. Even though it could not recruit the number of enlisted personnel it needed, DOD did maintain its quality standards for recruits. Its performance report and plan did not include a full assessment of its efforts to develop military personnel and to maintain high motivation in the military forces.

DOD's combat readiness outcome is aimed at being ready to fight and win two major theater wars or to conduct multiple operations other than war. However, its performance report and plan do not provide a complete picture of the forces and performance required to accomplish this and whether the outcome is being achieved. For example, in its performance report and plan, DOD included measures for the level of combat forces, but not for support forces, although the report recognizes the existence of support force shortfalls and discusses Army plans for correcting them. As another example, the report does not discuss the long-standing training and readiness problems of the Army National Guard's 15 Enhanced Brigades. However, the Department states that the classified Quarterly Readiness Report to the Congress includes information that would add to the clarity of the Enhanced Brigades' readiness. Finally, DOD's report does not include a measure of air refueling capability, which is critical to making global airlift in support of combat possible.

DOD's performance report and plan do not provide a completely clear picture of the extent to which infrastructure and operating procedures are more efficient and cost-effective. A key DOD measure, the percentage of budget spent on infrastructure, shows that the percentage has decreased one percent, but DOD provides no assessment of what the percentage should be. Also, its report does not include efficiency measures for areas, such as managing inventory and depot maintenance, based on cost. At the same time, DOD is making some progress on its infrastructure streamlining efforts. For example, it is disposing of excess acreage that resulted from closing military bases and is demolishing excess buildings on remaining bases. Additionally, it has been reducing the level of spare parts and of the National Defense Stockpile inventories. Further, DOD is also reducing the size of its acquisition workforce and taking a number of actions to improve the acquisition process.

DOD has the lead responsibility for aerial and maritime detection and monitoring of illegal drug shipments to the United States and provides assistance and training to foreign governments to combat drug-trafficking. However, its performance plan and report included no goals, measures, or assessment related to its results in efficiently and effectively reducing the availability and/or use of illegal drugs. In December 1999, we recommended that DOD develop performance measures to determine the effectiveness of its counterdrug activities and it has initiated steps to develop such measures.

DOD's performance report and plan contain no goals, measures, or assessment on whether it is achieving a reduction in erroneous payments to contractors.

DOD is confronted by nine key major management challenges that it must overcome to help it more effectively achieve its desired outcomes. It must overcome some of them—financial management and information management and technology—even to be able to effectively measure its progress toward achieving key outcomes. DOD's fiscal year 2001 performance plan includes goals and measures that are directly applicable to seven of the challenges: (1) financial management, (2) information management and technology, (3) weapon systems acquisition, (4) streamlining the defense infrastructure, (5) inventory management, (6) military personnel, and (7) military readiness. The plan, however, does not contain goals, measures, or

strategies for overcoming two of the challenges: (1) contracting, and (2) turbulence from change (instability resulting from numerous reengineering, modernization, and streamlining efforts in DOD and changes in the external environment). Although DOD has made some progress toward overcoming a number of these management challenges, significant additional progress is needed.

## **Recommendation**

We recommend that the Secretary of Defense enhance the Department's fiscal year 2002 performance plan and fiscal year 2000 performance report by considering additional qualitative and quantitative information in the areas cited by our analysis.

## **Objectives, Scope, and Methodology**

Our objectives concerning selected key agency outcomes were: (1) identify and assess the quality of the performance goals and measures directly related to a key outcome, (2) assess the agency's actual performance in fiscal year 1999 for each outcome, and (3) assess the agency's planned performance for fiscal year 2001 for each outcome. Our objectives concerning major management challenges were: (1) assess how well the agency's fiscal year 1999 performance report discussed the progress it had made in resolving the major management challenges that we and the agency's Inspector General had previously identified, and (2) identify whether the agency's fiscal year 2001 performance plan had goals and measures applicable to the major management challenges. As agreed, in order to meet the Committee's tight reporting timeframes, our observations were generally based on the requirements of GPRA, guidance to agencies from the Office of Management and Budget for developing performance plans and reports (OMB Circular A-11, Part 2), previous reports and evaluations by us and others, our knowledge of DOD's operations and programs, and our observations on DOD's other GPRA-related efforts. We did not independently verify the information contained in the performance report or plan. We conducted our review from April through May 2000 in accordance with generally accepted government auditing standards.

## **Agency Comments and Our Evaluation**

In a letter dated June 16, 2000, the DOD Director for Program Analysis and Evaluation provided written comments on a draft of this letter. DOD agreed that its future performance reports and plans could be enhanced. However, the Department expressed concern about some of the information contained in our report. DOD believes that its fiscal year 1999 performance report and fiscal year 2001 performance plan provide a comprehensive, executive-level overview of how the Secretary of Defense manages performance to achieve the outcomes required by the defense strategy. DOD stated, however, that next year's fiscal year 2002 performance plan could be enhanced by a somewhat fuller narrative description of performance outcomes. It further stated that simply measuring more things in more detail would not give the Congress or the public a clearer picture of how the Secretary and senior staff manage the Department's long-term performance. Additionally, the Department

stated that a reader of our report might conclude that GPRA is intended to be the sole venue for reporting on DOD's performance management, and it does not concur with such a conclusion. It noted that many documents, testimony before the Congress, periodic study reports and evaluations, and other public statements provide additional and topical details on how DOD conducts the public's business.

We agree that DOD's fiscal year 1999 performance plan and fiscal year 2001 performance report provides an executive-level overview of the Department's intent to manage performance and achieve outcomes. However, based on our analysis, the report does not provide a completely clear picture of the extent to which the Department has achieved key program outcomes identified by the Senate Committee on Governmental Affairs or of the progress made toward overcoming the major management challenges facing the Department. It was not our intention that DOD simply measure more things in more detail. Rather, our intent was that the Department consider additional qualitative and quantitative information that could contribute to providing a clearer picture of performance. As a result, we modified our recommendation to clarify our focus on the need for DOD to consider additional qualitative and quantitative information to clearly explain its performance outcomes and progress in overcoming major management challenges.

We do not believe our report suggests that GPRA is the sole venue for reporting on DOD's performance management. We have recognized, in this and previous GPRA reports, DOD's use of other venues, such as the Financial Management Improvement Plan. We believe that in providing performance information to the Congress and the public, some venues alone, such as counterdrug program budget justification material, would not provide sufficient, high-level information to the Congress or the general public to effectively communicate progress on achieving expected outcome. DOD's comments are reprinted in enclosure III.

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As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to the Honorable William Cohen, Secretary of Defense, and the Honorable Jacob Lew, Director, Office of Management and Budget. Copies will be available to others at [www.gao.gov](http://www.gao.gov).

Please call me on (202) 512-8412 if you or your staff have any questions. Key contributors to this letter were Charles I. Patton, Jr., Kenneth R. Knouse, Jr., Elizabeth G. Mead, George C. Surosky, and F. Earl Morrison.



David R. Warren, Director  
Defense Management Issues

**Observations on the Department of Defense's Fiscal Year 1999 Actual Performance and Fiscal Year 2001 Planned Performance Related to Key Outcomes**

This enclosure provides our observations on the Department of Defense's (DOD) fiscal year 1999 actual and fiscal year 2001 planned performance for key outcomes identified by the Senate Governmental Affairs Committee as important mission areas for the Department. The key outcomes for DOD are: (1) the U.S. maintains technological superiority in key warfighting capabilities; (2) U.S. military forces are adequate in number, well qualified, and highly motivated; (3) combat readiness is maintained at the desired level; (4) infrastructure and operating procedures are more efficient and cost-effective; (5) reduced availability and/or use of illegal drugs; and (6) fewer erroneous payments to contractors. As requested we have identified the goals and measures directly related to a selected key outcome. Our observations are organized according to each selected key outcome and follow the goals and measures.

**Key Agency Outcome: The United States Maintains Technological Superiority in Key Warfighting Capabilities**Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of The United States Maintains Technological Superiority in Key Warfighting Capabilities

DOD's performance goal for this outcome is: **"Transform U.S. military forces for the future."**

DOD has three measures to support this goal.

**--Annual procurement spending**

- 1999 goal: \$48.7 billion
- 1999 actual: \$48.7 billion (**Goal met**)

**--Status of Defense technology objectives as judged through peer reviews**

- 1999 goal: at least 70 percent of all defense technology objectives are to be judged as on track
- 1999 actual: 94 percent on track (**Goal exceeded**)

**--Joint experiments**

- 1999 goal: establish a detailed joint experimentation plan
- 1999 actual: plan established (**Goal met**)

GAO's Observations on DOD's Fiscal Year 1999 Actual Performance for the Key Agency Outcome of The United States Maintains Technological Superiority in Key Warfighting Capabilities

DOD's performance goal is outcome-oriented, but its performance report does not fully quantify or make a full qualitative assessment of its performance. The measures for procurement spending and defense technology objectives are tangible and quantifiable, but do not provide a direct link to meeting the goal. The measure for the joint experimentation plan is not quantifiable in fiscal year 1999, but it is a statement of a tangible event. After fiscal year 1999, the measure will provide quantifiable data to assess whether DOD is conducting experiments necessary for a robust program of joint concept development and experimentation.

Procurement spending is an input, rather than an outcome. Measuring the amount of money spent does not ensure that the right items are being bought or that they are being bought in the most efficient manner. For example, a major acquisition program that experienced a significant cost increase could actually help measure performance, even though actual capabilities did not increase. The same is true for a decision to make a major investment in a weapon system that provides only a marginal improvement in capabilities. Efficiency measures based on cost could help provide a clearer picture of performance.

Defense technology objectives partially capture progress toward the goal that the DOD science and technology investment develops and transitions superior technology to enable affordable, decisive military capability. Typically, a defense technology objective is a project to advance a particular technology, such as high temperature materials. However, the defense technology objectives represent only about half of the science and technology investment; the other half is not captured by the measure. Also, the measure does not address the extent to which defense technology objectives are transitioned onto systems or equipment—when actual capability gains are realized. Making this transition has been a difficult undertaking.

DOD's performance measures do not reflect the recommendations of a 1999 Defense Science Board study that could enable DOD to strengthen the link between the performance goal and measures. The study called for a more explicit strategy to guide the transformation of U.S. forces and outcome-related metrics to assess progress. A strategy is presented in the Secretary of Defense's annual report, but it does not include outcome-related metrics. Examples of metrics cited in the 1999 study that can be used to gauge DOD's progress in transforming military capabilities include (1) growth in the number of smart weapons and (2) reduction in time to deploy a potent force.

DOD's performance goal, as stated, covers more than fiscal year 1999 and thus cannot be fully assessed yet as having been met or not, although a qualitative assessment could be made on a point in time basis to assess warfighting capabilities. However, DOD did meet the performance measures it established for fiscal year 1999. DOD clearly articulated all three and provided reasonable assurance that the performance information was credible. Procurement spending levels are explicitly appropriated by the Congress and tracked by

DOD's Planning, Programming, and Budgeting System. However, our financial statement audit work has raised questions concerning the reliability of DOD's reported budget execution data. While assessing defense technology objectives is relatively subjective, DOD does have an established process for making the assessments. The process consists of a peer review of a project's cost, schedule, and technical performance by a panel of technical experts. The actual joint experimentation plan has been published.

Unmet Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of The United States Maintains Technological Superiority in Key Warfighting Capabilities

There were no unmet fiscal year 1999 performance goals or measures.

Fiscal Year 2000 Performance Goals and Measures for the Key Agency Outcome of The United States Maintains Technological Superiority in Key Warfighting Capabilities

DOD's performance goal for fiscal year 2000 is the same as in fiscal year 1999. The fiscal year 2000 goals for the defense technology objectives and joint experiments performance measures have not been altered from the fiscal year 1999 plan. The fiscal year 2000 goal for the procurement spending performance measure was raised by \$1 billion compared with the goal for that year as stated in the fiscal year 1999 plan. Specifically, the goals for the performance measures for fiscal year 2000 are:

- \$54 billion in procurement spending
- 70 percent of defense technology objectives on track
- conduct 14 joint experiments.

GAO's Observations on DOD's Fiscal Year 2000 Planned Performance for the Key Agency Outcome of The United States Maintains Technological Superiority in Key Warfighting Capabilities

Since the actual performance in fiscal year 1999 met or exceeded goals, this performance is not expected to have any negative effect on meeting fiscal year 2000 goals. Because the actual fiscal year 2000 procurement spending level is reported to be \$53 billion, it falls slightly short of the \$54 billion goal. However, DOD still expects to meet its fiscal year 2001 goal of \$60 billion.

DOD currently plans to conduct 17 joint experiments in fiscal year 2000 and thus expects to exceed its original target of 14.

Fiscal Year 2001 Performance Goals and Measures for the Key Agency Outcome of The United States Maintains Technological Superiority in Key Warfighting Capabilities

DOD's performance goal for fiscal year 2001 is the same as in fiscal years 1999 and 2000. The fiscal year 2001 measures for procurement spending, defense technology objectives, and joint experiments have not been altered from the fiscal year 1999 or 2000 measures. The fiscal year 1999 plan did not include fiscal year 2001 goals for the three measures. The goals for the performance measures for fiscal year 2001 are:



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ENCLOSURE I

- \$60 billion in procurement spending
- 70 percent of defense technology objectives on track
- conduct 24 joint experiments.

GAO's Observations on DOD's Fiscal Year 2001 Planned Performance for the Key Agency Outcome of The United States Maintains Technological Superiority in Key Warfighting Capabilities

A key weakness of the fiscal year 2000 performance plan was that it did not include information on how DOD will qualitatively assess results. Because DOD's fiscal year 2001 plan uses the same measures to achieve its performance goal, the plan does not rectify this weakness. As noted above, procurement spending is an input that is not directly related to the outcome sought by the performance goal. Defense technology objectives partially capture progress towards the goal, but miss the qualitative contribution of about half the science and technology investments and the transition of technology to systems and equipment.

**Key Agency Outcome: United States Military Forces are Adequate in Number, Well Qualified, and Highly Motivated**

Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of United States Military Forces are Adequate in Number, Well Qualified, and Highly Motivated

DOD has one major goal for this outcome: **"Recruit, retain, and develop personnel to maintain a highly skilled and motivated force capable of meeting tomorrow's challenges."** This goal has four supporting measures and indicators.

**--Enlisted Recruiting**

- Goals for new recruiting
    - Active Force – 194,500
    - Selected Reserve – 158,722
  - Actual new recruits
    - Active Force – 186,600
    - Selected Reserve – 140,070
- (Goals not met)**

**--Quality Benchmarks for Enlisted Recruits (In Percents)**

- Goals
    - Recruits Holding High School Diplomas: >90
    - Recruits in AFQT Categories I-III: >60
    - Recruits in AFQT Category IV: <4
  - Actual (Active/Reserve)
    - Recruits Holding High School Diplomas: 93/90
    - Recruits in AFQT Categories I-III: 66/68
    - Recruits in AFQT Category IV: 0.9/1.0
- (Goals met or exceeded)**

**--Active Component Enlisted Retention Rates**

Army

- Goals
    - First Term: 20,200
    - Second Term: 23,000
  - Actual
    - First Term: 20,843
    - Second Term: 24,174
- (Goals exceeded)**

Navy

- Goals
  - First Term: 32 percent
  - Second Term: 48 percent
- Actual
  - First Term: 28.2 percent

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- Second Term: 43.8 percent  
**(Goals not met)**

Air Force

- Goals
  - First Term: 55 percent
  - Second Term: 75 percent
- Actual
  - First Term: 49 percent
  - Second Term: 69 percent**(Goals not met)**

Marine Corps

- Goals
  - First Term: 23 percent
  - Second Term: N/A (DOD reported that the Marine Corps does not set management goals for second-term retention.)
- Actual
  - First Term: 23.8 percent
  - Second Term: 56.5 percent**(Goals exceeded or not set)**

**--Selected Reserve Enlisted Attrition Rates (In Percents)**

The fiscal year 1999 goal was to establish attrition goals for fiscal year 2000. DOD established goals for fiscal year 2000. It also reported actual attrition rates for fiscal year 1999 as follows:

- Army National Guard: 18.5
  - Army Reserve: 27.2
  - Naval Reserve: 29.8
  - Marine Corps Reserve: 30.5
  - Air National Guard: 11.7
  - Air Force Reserve: 14.2
- (Goal met)**

ENCLOSURE I

GAO's Observations on DOD's Fiscal Year 1999 Actual Performance for the Key Agency Outcome of United States Military Forces are Adequate in Number, Well Qualified, and Highly Motivated

DOD's performance measures do not adequately indicate progress toward this performance goal. In particular, DOD's performance measures do not fully measure the extent to which U.S. military forces are highly motivated or its efforts to develop military personnel.

DOD has, however, identified specific goals in the areas of recruiting and retention. Recruiting goals represent the projected number of new personnel needed each year to maintain statutorily defined military end-strengths and the proper distribution of grade levels. These goals are objective, measurable, and quantifiable. However, because retention varies monthly, recruitment goals are adjusted over the year. That process yields a revised DOD-wide annual goal against which recruiting is evaluated. However, because DOD only has a composite recruitment goal, the measures can mask significant differences in performance across the services.

DOD reported specific numbers of actual recruits by component, and provided a description of the data flow used to produce its assessment of enlisted recruiting for the active components.

Quality benchmarks were established in 1992 based on a DOD and a National Academy of Sciences study. Recruiting targets based on these benchmarks are expected to reduce personnel and training costs while ensuring that the force meets high performance standards. The measures are directly related to recruit quality. They are objective, measurable, and quantifiable. While the benchmarks measure the quality of the inputs into the military, the relationship is reasonably outcome-oriented because high aptitude and the possession of a diploma have been found to be associated with training success and lower disciplinary rates. DOD indicated that it met or surpassed its fiscal year 1999 goals for recruit quality.

DOD goals for enlisted retention are objective, measurable, quantified, and outcome-oriented. However, while they provide a picture of overall retention by service and term of enlistment, such aggregate measures may mask variations in retention by occupational area and skill levels. As such, their goals provide only a partial measure of the military's ability to retain adequate numbers of qualified personnel.

DOD stated the degree to which it met its fiscal year 1999 retention goals. The Marine Corps and the Army either met or slightly exceeded their fiscal year 1999 goals. The Navy and the Air Force both had significant shortfalls in retention, but did not clearly articulate the factors responsible for missing retention goals.

DOD uses attrition rate ceilings rather than reenlistment rates to assess trends in reserve components. Attrition rate ceilings provide a better assessment of performance than retention rates for the reserve component because only a small percentage of the reserve population is eligible for reenlistment during any given year.

Unmet Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of United States Military Forces are Adequate in Number, Well Qualified, and Highly Motivated

- Numbers of enlisted recruits
- Percentage of active component enlisted retention rates for Navy and Air Force

GAO's Observations on DOD's Unmet Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of United States Military Forces are Adequate in Number, Well Qualified, and Highly Motivated

DOD stated that the major factors inhibiting meeting its recruiting goals were the robust economy and the continued record low unemployment. DOD did not articulate the factors it sees as responsible for the Navy and the Air Force missing retention goals. However, they cited some initiatives aimed at improving first-term and second-term retention for fiscal year 2000. For example, the Navy plans to reduce the interdeployment training cycle workload and enhance at-sea manning. But the Department's performance report does not indicate how such factors may be related to retention. The Air Force cited the package of increased pay and benefits that was passed last year. To mitigate the fiscal year 1999 shortfall, the Air Force plans to prioritize manpower needs, ensuring that critical billets are filled and operational billets receive priority over staff billets. Such efforts are aimed more at coping with the shortfall than eliminating it.

Fiscal Year 2000 Performance Goals and Measures for the Key Agency Outcome of United States Military Forces are Adequate in Number, Well Qualified, and Highly Motivated

DOD's performance measures and indicators for fiscal year 2000 are the same as above. However, several of the specific numerical goals for the measures and indicators changed from fiscal year 1999 to fiscal year 2000. These are:

**--Enlisted Recruiting**

- Goals
  - Active Force: 203,700
  - Selected Reserve: 151,600

**--Active Component Enlisted Retention Rates**

- Goals
  - Army
    - First Term: 20,000
    - Second Term: 24,700
  - Navy
    - First Term: 30.5 percent
    - Second Term: 45 percent

Marine Corps

First Term: 26 percent

Second Term: N/A

**--Selected Reserve Enlisted Attrition Rates (In Percents)**

The Department's fiscal year 1999 goal was to establish attrition goals for fiscal year 2000. The established fiscal year 2000 attrition goals (ceilings) are as follows:

- Army National Guard: 18
- Army Reserve: 28.6
- Naval Reserve: 36
- Marine Corps Reserve: 30
- Air National Guard: 12
- Air Force Reserve: 18

Additionally, the plan revised some of the fiscal year 1999 numerical goals:

**--Enlisted Recruiting**

- Goals
  - Active Force: 194,500 (from 196,400)
  - Selected Reserve: 158,722 (from 151,100)

**--Active Component Enlisted Retention Rates**

- Goals
  - Army
    - First Term: 20,200 personnel (from 55 percent--previously listed as a percentage goal rather than as a numerical goal)
    - Second Term: 23,000 personnel (from 75 percent--previously listed as a percentage goal rather than as a numerical goal)

GAO's Observations on DOD's Fiscal Year 2000 Planned Performance for the Key Agency Outcome of United States Military Forces are Adequate in Number, Well Qualified, and Highly Motivated

In 1999, DOD regrouped its corporate goals to more accurately reflect resource tradeoffs between current and future needs. To reflect these changes, the Department updated and replaced its fiscal year 1999 performance plan with its fiscal year 2000 performance plan. As noted above, however, several of the numerical goals for the measures and indicators differ for fiscal years 2000 and 1999.

Recruiting goals change annually. The plan notes that meeting future goals will be challenging. It explains that in the short term, DOD remains able to meet all operational requirements, but continued recruiting shortfalls could, over time, jeopardize the maintenance of desired force levels and readiness standards. To assist in meeting fiscal year 2000 goals, the plan identifies several initiatives the services intend to implement.

These include increasing the number of recruiters, expanding advertising budgets, sponsoring television ads, providing enhanced enlistment incentives (including enlistment bonuses and college funds, which DOD authorized increasing to the statutory maximums), and expanding the recruitment of prior service personnel.

Changes to Army, Navy, and Marine Corps retention goals for fiscal year 2000 are delineated in the report. However, none of the services provided an explanation of why they did not meet their fiscal year 1999 goals or why the goals changed for fiscal year 2000.

DOD delineated the attrition ceiling goals for each of the reserve components, but did not indicate how they were established. They appear to be similar to historical attrition rates for fiscal years 1997-99. The Naval Reserve goal of 36 percent seems high compared to the historical range of 26 percent to 31 percent over the last three years, and yet there is no explanation.

Fiscal Year 2001 Performance Goals and Measures for the Key Agency Outcome of United States Military Forces are Adequate in Number, Well Qualified, and Highly Motivated

The fiscal year 2001 plan contained new numerical goals for some of the existing measures and indicators:

**--Enlisted Recruiting**

- Goals
  - Active Force: 205,248
  - Selected Reserve: 156,253

**--Active Component Enlisted Retention Rates**

- Goals
  - Navy
    - First Term: 33 percent
    - Second Term: 48 percent
  - Marine Corps
    - First Term: 23 percent
    - Second Term: N/A

Additionally, the plan revised some of the fiscal year 2000 numerical goals:

**--Enlisted Recruiting**

- Goals
  - Active Force: 203,700 (from 203,900)
  - Selected Reserve: 151,600 (from 157,200)

**--Active Component Enlisted Retention Rates**

## • Goals

Army

First Term: 20,000 personnel (from 55 percent)

Second Term: 24,700 personnel (from 75 percent)

Navy

First Term: 30.5 percent (from 33.5 percent)

Second Term: 45 percent (from 49.5 percent)

Marine Corps

First Term: 26 percent (from 23 percent)

GAO's Observations on DOD's Fiscal Year 2001 Planned Performance for the Key Agency Outcome of United States Military Forces are Adequate in Number, Well Qualified, and Highly Motivated

As noted in discussing fiscal year 2000 performance goals and measures, recruiting goals change annually. DOD has established new goal levels for fiscal year 2001.

During fiscal year 1999 DOD had no specific goal for attrition. However, for fiscal years 2000 and 2001, a goal of 18 percent or lower attrition rate was established. Over the last several years we have identified early attrition of first-term active duty personnel as a key problem. About one-third of new recruits fail to complete their obligated tour of duty. However, the DOD performance plan has still not incorporated any goals dealing with the early attrition problem.



**Key Agency Outcome: Combat Readiness is Maintained at the Desired Level****Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of Combat Readiness is Maintained at the Desired Level**

The Department of Defense has two goals for providing the capability and forces to fight and win two major theater wars or to conduct multiple operations other than war:

**"Maintain ready forces and ensure they have the training necessary to provide the United States with the ability to shape the international security environment and respond to a full spectrum of crises" and "Maintain the capability to move military forces from the United States to any location in the world in response to aggression, using a combination of airlift, sealift, and prepositioned equipment."** The first goal has 15 supporting measures and indicators:

**--Force Levels**Army

- Goals
  - Active Corps – 4
  - Divisions (Active/National Guard) – 10/8
  - Active Armored Cavalry Regiments – 2
  - Enhanced Brigades (National Guard) – 15
- Actual
  - Active Corps – 4
  - Divisions (Active/National Guard) – 10/8
  - Active Armored Cavalry Regiments – 2
  - Enhanced Brigades (National Guard) – 15
  - (Goals met)**

Navy

- Goals
  - Aircraft Carriers (Active/Reserve) 11/1
  - Air Wings (Active/Reserve) – 10/1
  - Amphibious Ready Groups – 12
  - Attack Submarines – 57
  - Surface Combatants (Active/Reserve) – 106/10
- Actual
  - Aircraft Carriers (Active/Reserve) – 11/1
  - Air Wings (Active/Reserve) – 10/1
  - Amphibious Ready Groups – 12
  - Attack Submarines – 57
  - Surface Combatants (Active/Reserve) – 106/10
  - (Goals met)**

Air Force

- Goals
  - Fighter Wings (Active/Reserve) – 12.6/7.6

## ENCLOSURE I

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Air Defense Squadrons (Reserve) – 4  
Bombers (Active/Reserve) – 158/27

- Actual  
Fighter Wings (Active/Reserve) – 12.6/7.6  
Air Defense Squadrons (Reserve) – 4  
Bombers (Active/Reserve) – 163/27  
**(Goals met or exceeded)**

### Marine Corps

- Goals  
Marine Expeditionary Forces – 3  
Divisions (Active/Reserve) – 3/1  
Air Wings (Active/Reserve) – 3/1  
Force Service Support Groups (Active/Reserve) -- 3/1
- Actual  
Marine Expeditionary Forces – 3  
Divisions (Active/Reserve) – 3/1  
Air Wings (Active/Reserve) – 3/1  
Force Service Support Groups (Active/Reserve) -- 3/1  
**(Goals met)**

### **--Tempo**

#### Army

- Goals  
Number of Units with Soldiers Who Deploy More Than 120 Days per Year – 0  
Number of Individual Units Deploying More Than 179 Days per Year – 0
- Actual  
Number of Units with Soldiers Who Deploy More Than 120 Days per Year – 43  
**(Goal effectively met; DOD considers this goal to be met because according to the Department, only 43 of about 4,800 units exceeded their deployment ceilings.)**  
Number of Individual Units Deploying More Than 179 Days per Year – 48  
**(Goal effectively met; DOD considers this goal to be effectively met because according to the Department, only 48 of about 4,800 units exceeded their deployment ceilings.)**

#### Navy

- Goal  
Units Not Meeting Personnel Tempo – 0
- Actual  
Units Not Meeting Personnel Tempo – 2  
**(Goal effectively met; DOD considers this goal to be effectively met because according to the Department, only 2 of about 500 units failed to meet their personnel tempo goals.)**

Air Force

- Goal
  - Percentage of Personnel Assigned to Combat Systems Who Are Deployed Under 120 Days TDY per Year – 100
  - Average Number of Days Deployed for Those Personnel Exceeding 120 Days TDY per Year (This number is tracked but no specific goal was set.)
- Actual
  - Percentage of Personnel Assigned to Combat Systems Who Are Deployed Under 120 Days TDY per Year – 75
  - Average Number of Days Deployed for Those Personnel Exceeding 120 Days TDY per Year – 148
  - (Goal not met)**

Marine Corps

- Goal
  - Units Deploying More Than 180 Days per Year Over a 36-Month Scheduling Period – 0
- Actual
  - Units Deploying More Than 180 Days per Year Over a 36-Month Scheduling Period – 0
  - (Goal met)**

**--Classified Readiness Indicators**Army, Navy, Air Force and Marine Corps

- Goals
  - Goals for the metrics can be found in the January-to-March 1999 Quarterly Readiness Report to Congress.
- Actual
  - Results for the metrics can be found in the October-to-December 1999 Quarterly Readiness Report to Congress. (The metrics track readiness by Service, in the areas of personnel, equipment, training, and combat enablers. The annual statistics provide an overall picture of the readiness of military units to accomplish the specific missions assigned to them.)

**--Flying Hours (per aircrew per month, except per aircraft per month for Army Active)**Army

- Goals
  - Active – 14.1
  - Reserve – 8.3
  - National Guard – 7.3
- Actual
  - Active – 14.5 **(Goal exceeded)**
  - Reserve – 8.3 **(Goal met)**
  - National Guard – 6.3 **(Goal not met)**

Navy and Marine Corps

- Goals
  - Active – 22.1
  - Reserve – 11.0 (Navy only)
- Actual
  - Active – 23.0
  - Reserve – 11.0 (Navy only)
  - (Goals met or exceeded)**

Air Force

- Fighter/Attack Goals
  - Active – 17.7
  - Reserve – 10.7
  - National Guard – 11.6
- Actual
  - Active – 17.7
  - Reserve – 10.7
  - National Guard – 11.6
  - (Goals met)**
- Bombers Goals
  - Active – 17.9
  - Reserve – 16.0
  - National Guard – 19.7
- Actual
  - Active – 17.9
  - Reserve – 17.6
  - National Guard – 19.7
  - (Goals met or exceeded)**

**--Number of Tank Miles per Year**

- Goals
  - Army (Active) – 800
  - Army National Guard (Enhanced Separate Brigades) – 288
- Actual
  - Army (Active) – 681
  - Army National Guard (Enhanced Separate Brigades) – 160
  - (Goals not met)**

**--Number of Steaming Days per Quarter**

- Goals
  - Navy (Active Deployed) – 50.5
  - Navy (Reserve Deployed) – 50.5
  - Navy (Active Nondeployed) – 28.0
  - Navy (Reserve Nondeployed) – 18.0

- Actual
  - Navy (Active Deployed) – 50 **(Goal not met)**
  - Navy (Reserve Deployed) – 50.5
  - Navy (Active Nondeployed) – 28
  - Navy (Reserve Nondeployed) – 18
  - (Goals met)**

The second goal “**Maintain the capability to move military forces from the United States to any location in the world in response to aggression, using a combination of airlift, sealift, and prepositioned equipment**” has three indicators:

**--Airlift Capacity (million ton miles per day)**

- Goals
  - Military – 26
  - Military and Commercial – 46
- Actual
  - Military – 26
  - Military and Commercial – 46
  - (Goals met)**

**--Organic Surge Sealift (million square feet)**

- Goal – 7.7
- Actual – 7.7
- (Goal met)**

**--Forces Supported By Land and Sea-Based Prepositioning**

- Goals:
  - Army Heavy Brigades
    - Land Based – 5
    - Afloat – 1
  - Marine Expeditionary Forces (MEFs)
    - Land-Based – (Partial)
    - Afloat – 3
- Actual
  - Army Heavy Brigades
    - Land Based – 5
    - Afloat – 1
  - Marine Expeditionary Forces (MEFs)
    - Land-Based – (Partial)
    - Afloat – 3
  - (Goals met)**

GAO's Observations on DOD's Fiscal Year 1999 Actual Performance for the Key Agency Outcome of Combat Readiness is Maintained at the Desired Level

This outcome is aimed at being ready to fight and win two major theater wars. However, although as noted in the discussions below, the specific performance measures are objective, measurable, and quantifiable, taken as a whole they do not provide a complete picture of the forces and performance required to fight two wars or to conduct multiple operations other than war.

DOD's force level goals are objective, measurable, and quantifiable, and DOD reported meeting these goals for fiscal year 1999. However, the force level goals do not provide a complete picture of the forces required to fight two wars or to conduct multiple operations other than war. For example, DOD included only combat unit force levels in its performance measures. No provision was made to measure the associated support forces. Yet, in the event of two wars, the Army will need to deploy about 500,000 support personnel in addition to its combat forces.

DOD's metric for a trained and ready force is set at a high level--Army corps and divisions, Navy carriers and Air Force wings. Setting the metric at this level masks the effect of the use of the military services in smaller scale contingency operations such as the Balkans. DOD has shown that some of the forces necessary for a major theater war are also expected to be used for smaller scale contingency operations until needed for a major war. Redeploying forces from such operations to respond to a major theater war would be difficult because of competing demands for various military capabilities. For example, redeploying forces could seriously strain the services' mobility and support forces.

While DOD did not provide performance measures for support force levels, its narrative does discuss Army plans for correcting support force shortfalls.

The performance indicators used to assess tempo—the pace of operations for people and equipment—vary by service. While they are objective, measurable, quantifiable, and outcome-oriented, they do not present a complete picture of tempo from the standpoint of the individual service member. Tempo is relevant to maintaining trained and ready forces because it has been cited as a reason for personnel leaving the military. Consequently, what is most relevant to service personnel and their families is the extent to which the individual is required to be away from home, rather than the more indirect measure of the extent to which units are deployed. Only the Air Force measures tempo at the individual level. Each of the other services measures tempo at the unit level. This will not account for all the time service members spend away from home.

Only the Marine Corps fully met its tempo goal for 1999. DOD officials stated that although the Air Force did not meet its tempo goal, the Army and Navy effectively met their goals since only 48 of the Army's 4,800 individual units deployed more than 179 days per year, and only 2 out of 500 Navy units did not meet their personnel tempo goals. The fiscal year 1999 goal for the Army was to have no individual units deployed more than 179 days. The Navy's goal was to have no units that did not meet personnel tempo

goals. DOD's plan, however, does not clearly describe the context in which this information is presented, thus preventing the reader from understanding the extent to which Army and Navy did or did not meet their goals.

DOD reported that for the small number of Army and Navy units that missed their tempo goals, the reason was primarily because of deployments for contingency operations in support of Operation Allied Force.

DOD's annual performance plans do not discuss the Army National Guard Enhanced Brigades' long standing training and readiness problems in the areas of mission-essential task proficiency, gunnery, and training in the individual military specialties and leadership courses; or clearly identify objective and quantifiable performance goals and measures in those areas. DOD's plan simply states that its force level goal is to maintain 15 Enhanced Brigades, and that it has a number of tank miles per year goal to provide the resources needed for training at a certain level of tank miles each year. DOD also identified a system of classified readiness indicators. However, GAO's 1995 report (GAO/NSIAD-95-91) showed that classified brigade readiness estimates of required postmobilization training times were subjective and unrealistically low.

DOD's flying hours, tank miles, and steaming days goals are objective, measurable and quantifiable. However, adding an efficiency component, i.e., cost per flying hour could enhance measures. DOD reported meeting the goals except for the flying hours goal set for the Army National Guard, the steaming days goal set for the active deployed Navy, and the tank miles goal.

DOD's mobility performance measures are objective, measurable, and quantifiable, and although DOD reported meeting the goals it set for 1999, the goals do not provide a complete picture of the mobility forces required to fight two major theater wars. For example, DOD included airlift, sealift, and prepositioned stocks in its strategic mobility performance measures, but it did not mention aerial refueling capability. The Air Mobility Command's Air Mobility Master Plan states that combined with airlift, the capability to provide in-flight refueling makes global mobility possible. Therefore, air refueling tanker aircraft are critical to the national strategy. They are required to establish the air bridge to the combat, combat support, and air mobility forces to the theater of operations for Air Force, sister services, and allied aircraft. Here again, DOD did not include efficiency measures based on cost.

DOD's fiscal year 1999 performance report discussed the source and review process for the performance information for all its performance measures and indicators related to this outcome. Overall, DOD's data appear to be reasonably accurate.

Unmet Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of Combat Readiness is Maintained at the Desired Level

- Air Force Tempo
- Flying Hours for the Army National Guard
- Number of Tank Miles per Year

--Steaming Days per Quarter for the Active Deployed Navy

GAO's Observations on DOD's Unmet Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of Combat Readiness is Maintained at the Desired Level

DOD's explanation for not achieving the Air Force tempo goal was very brief. Basically, they cited the need to support contingency operations as the main reason why the goal was not met. The report cited an Air Force plan to address its tempo problem (e.g., transition to the Aerospace Expeditionary Force concept), but it did not cite any specifics. Its report did not cite a reason for missing the Army National Guard flying hours goal. The report cited a diversion of resources to meet other Army Operations and Maintenance programs as the reason for failing to meet the tank miles goals. It also noted that the Navy effectively met its steaming days per quarter goal since it missed the goal by less than one percent. Additionally, DOD officials stated that the Department considers the Army and Navy tempo goals as effectively met because only a very few units did not meet their goals.

Fiscal Year 2000 Performance Goals and Measures for the Key Agency Outcome of Combat Readiness is Maintained at the Desired Level

DOD's two broad performance goals and its performance measures and indicators for fiscal year 2000 are the same as for fiscal year 1999. However, several of the specific quantitative goals for the measures and indicators did change from fiscal year 1999 to fiscal year 2000. Where changed, the specific fiscal year 2000 goals for the measures and indicators follow.

--**Force Levels**

Navy

- Goals
  - Attack Submarines – 56
  - Surface Combatants (Active/Reserve) – 108/8

Air Force

- Goals
  - Bombers (Active/Reserve) – 163/27

--**Flying Hours**

Army

- Goals
  - Active – 14.5
  - Reserve – 9.5
  - National Guard – 9.0

Navy and Marine Corps

- Goal
  - Active – 22.3

Air Force

- Goals
  - Fighter/Attack



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- Active – 17.2
- Reserve – 11.1
- Goals
  - Bomber
  - Active – 15.8
  - Reserve – 17.2

### --Number of Tank Miles per Year

- Goal
  - Army National Guard (Enhanced Separate Brigades) – 310

### --Organic Surge Sealift (million square feet)

- Goal – 8.7

### --Forces Supported by Land and Sea-Based Prepositioning

- Goal
  - Army Heavy Brigades
  - Land Based – 6

### GAO's Observations on DOD's Fiscal Year 2000 Planned Performance for the Key Agency Outcome of Combat Readiness is Maintained at the Desired Level

In 1999, DOD regrouped its corporate goals to more accurately reflect resource tradeoffs between current and future needs. To reflect these changes, the Department updated and replaced its fiscal year 1999 performance plan with its fiscal year 2000 performance plan. As noted above, however, several numerical goals for the performance measures and indicators differ for fiscal years 2000 and 1999.

DOD explained that the decline in its goal for attack submarines from 57 in fiscal year 1999 to 56 in fiscal year 2000 reflects changing requirements. No explanation was provided on the change in active versus reserve surface combatants or on the change in the number of bombers. DOD did indicate that its fiscal year 2000 goals do not vary significantly from its fiscal year 1999 goals.

DOD's report does not discuss the changes in flying hours goals or provide a detailed explanation for the increase in the tank miles goal. The report states only that the fiscal year 2000 tank miles goal includes annual mileage for individual tank crew and squad training, platoon-level training, Combat Training Center programs, and transit to and from training areas. The organic surge sealift goal was increased because DOD's long-term goal is to achieve 10 million square feet of capability. Measures could be supplemented with efficiency-based cost measures.

### Fiscal Year 2001 Performance Goals and Measures for the Key Agency Outcome of Combat Readiness is Maintained at the Desired Level

DOD's fiscal year 1999 performance report and fiscal year 2001 performance plan included a measure and associated fiscal years 1999, 2000, and 2001 goals of 7.3, 9.0, and

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9.0 flying hours per aircrew per month for the Army National Guard. Although DOD reported the fiscal year 1999 performance against the goal in its performance report, the measure had not been in DOD's performance plan for fiscal years 1999 and 2000.

Also, the fiscal year 2001 performance plan contained the following numerical goals for a number of existing measures and indicators that are different from the numerical goals set for fiscal year 1999 or the amount those goals were changed to for fiscal year 2000.

### --Force Levels

#### Navy

- Goals
  - Aircraft Carriers (Active/Reserve) – 12/0
  - Attack Submarines – 55

### --Flying Hours

#### Army

- Goal
  - Reserve – 9.0

### --Number of Tank Miles per Year

- Goal
  - Army National Guard (Enhanced Separate Brigades) – 248

### --Organic Surge Sealift (million square feet)

- Goal – 9.2

### --Forces Supported By Land and Sea-Based Prepositioning

- Goal
  - Army Heavy Brigades
  - Afloat – 2

Additionally, the following variations occurred between some numeric goals for performance measures included in DOD's performance plan for fiscal years 1999 and 2000 and its performance report for fiscal year 1999 and performance plan for fiscal year 2001.

### --Force Levels

#### Air Force

The Fighter Wings (Active/Reserve) goal was shown as 13/7.2 for fiscal year 1999 in the fiscal year 1999/2000 performance plan.

The Air Defense Squadrons (Reserve) goal was shown as 6 for fiscal year 1999 in the fiscal year 1999/2000 performance plan.

### --Flying Hours

#### Army

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The Reserve goal was shown as 8.0 for fiscal year 1999 and 9.0 for fiscal year 2000 in the fiscal year 1999/2000 performance plan.

**--Number of Tank Miles per Year**

The Army National Guard (Enhanced Separate Brigades) goal was shown as 278 for fiscal year 2000 in the fiscal year 1999/2000 performance plan.

**--Organic Surge Sealift (million square feet)**

The goal was shown as 10 for fiscal year 2001 in the fiscal year 1999/2000 performance plan.

GAO's Observations on DOD's Fiscal Year 2001 Planned Performance for the Key Agency Outcome of Combat Readiness is Maintained at the Desired Level

Many of DOD's goals for specific performance measures and indicators change annually, as might be expected when attempting to achieve goals over the long-term. However, DOD's report does not explain the reason for every change. For example, DOD's report does not provide an explanation for the decrease in the tank-mile goal. It states only that the change reflects a programmed decrease in transit miles to and from training areas. It does include some explanations, however. For example, its report explains that the decrease in the organic surge sealift goal will result primarily from a delay in the delivery of a ship.

**Key Agency Outcome: Infrastructure and Operating Procedures are More Efficient and Cost-Effective**Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of Infrastructure and Operating Procedures are More Efficient and Cost-Effective

DOD has two performance goals for this outcome: **"Streamline Infrastructure through Business Reform"** and **"Improve Acquisition."** The first goal on infrastructure has eight supporting measures and indicators:

**--Reduce Percentage of DOD Budget Spent on Infrastructure**

- Goal: 43 percent
- Actual: 42 percent (**Goal exceeded**)

**--Unfunded Depot Maintenance Requirements**

- Goal
  - Army -- \$440 million or less
  - Navy -- \$585 million or less
  - Air Force -- \$187.8 million or less
- Actual
  - Army -- \$454 million (**Goal not met**)
  - Navy -- \$630 million (**Goal not met**)
  - Air Force -- \$104 million (**Goal exceeded**)

**--Number of Positions Subject to Public-Private Sector Competitions**

- Goal: 52,000
- Actual: 55,800 (preliminary) (**Goal exceeded**)

**--Logistics Response Time**

- Goal: 24 days
- Actual: 18 days (**Goal exceeded**)

**--Percentage of DOD Inventory Visible and Accessible to Inventory Managers**

- Goal: 80
- Actual: 94 (**Goal exceeded**)

**--Amount of National Defense Stockpile (NDS) disposed of (in fiscal year 1996 dollars) and Level of Supply Inventory (in fiscal year 1995 dollars)**

- Goal for NDS: \$600 million
- Actual for NDS: \$550 million (**Goal not met**)
- Goal for supply inventory: \$59 billion
- Actual for supply inventory: \$55 billion (**Goal met**)

### --Disposal of Excess Real Property through Base Closures and Building Demolitions

Excess acreage remaining for disposal through base closures

- Goal: 182,000 acres
- Actual: 182,000 acres **(Goal met)**

Cumulative square feet disposed of through demolitions in fiscal year

- Goal: 25 million
- Actual: 30.6 million **(Goal exceeded)**

Cost per cumulative square foot disposed of through demolitions in fiscal year

- Goal: less than \$11
- Actual: \$9.9 **(Goal exceeded)**

### --Defense Working Capital Fund Net Operating Results

#### Army

- Supply Management Goal: -\$4.9 million
- Supply Management Actual: \$47.6 million **(Goal exceeded)**
- Depot Maintenance Goal: \$9.6 million
- Depot Maintenance Actual: \$71.1 million **(Goal exceeded)**

#### Navy

- Supply Management Goal: \$65.9 million
- Supply Management Actual: -\$102.1 million **(Goal not met)**
- Aviation Depot Maintenance Goal: -\$13.8 million
- Aviation Depot Maintenance Actual: -\$40.7 million **(Goal not met)**
- Shipyard Maintenance Goal: \$4 million
- Shipyard Maintenance Actual: -\$22.5 million **(Goal not met)**

#### Air Force

- Supply Management Goal: -\$216.2 million
- Supply Management Actual: -\$13.1 million **(Goal exceeded)**
- Depot Maintenance Goal: \$133.2 million
- Depot Maintenance Actual: \$43.4 million **(Goal not met)**

#### U.S. Transportation Command

- Transportation Goal: \$8.7 million
- Transportation Actual: -\$61.7 million **(Goal not met)**

### GAO's Observations on DOD's Fiscal Year 1999 Actual Performance for the Key Agency Outcome of Infrastructure and Operating Procedures are More Efficient and Cost-Effective

All measures in this area are objective, measurable, and quantifiable, but are insufficient to help DOD assess whether it is streamlining its infrastructure. For example, most are output-oriented and provide limited insight into progress toward the streamlining goal. We have stated in our past assessments that DOD should adopt more outcome-oriented measures so it can better track the impact or results of its actions. DOD's public-private competition and base closure measures fit into this category. The first tracks the

number of positions subject to A-76 competitions or strategic sourcing reviews, and the second tracks the excess acreage remaining for disposal through base closures. While such information is reasonable to track, it generally reflects status information rather than the impact the programs are having on the efficiency and cost-effectiveness of operations.

Moreover, one of the key, outcome-oriented measures that DOD uses—the percentage of DOD's budget spent on infrastructure—is of limited value because of our concerns with the reliability of reported budget execution data and it does not reflect what the Department should be spending on infrastructure. For example, while infrastructure expenditures have been reduced, the Department acknowledges that it has not been spending enough money to offset a growing backlog of maintenance and repair projects.

That said, there are a few measures that represent reasonable indicators of how well DOD is achieving specific goals. For example, the measure showing how much excess square footage has been demolished is useful in assessing DOD's efforts to reduce the amount of excess structures at its installations. In addition, the measure tracking how much supply inventory DOD has on hand, although impaired by inadequate data needed to maintain visibility over existing inventories, helps show whether efforts to streamline this part of the infrastructure are successful.

On the other hand, a few of the measures offer little insight into progress toward streamlining goals. These include unfunded depot maintenance requirements and the Defense Working Capital Fund net operating results. These are discussed in more detail below.

In terms of how well DOD met the goals associated with its measures and indicators for fiscal year 1999, the Department reported that it met many of its targets. DOD's claims, however, do not always hold up under scrutiny.

For example, DOD reports that it exceeded its goal for the percentage of budget spent on infrastructure. The report does not state, however, that this measure excludes significant infrastructure costs associated with the Defense Working Capital Funds. In the past, DOD has estimated that these costs, on average, would add 14 percent to total infrastructure costs. Similarly, the Department reported that it met its goals for making inventory visible and accessible to inventory managers. These claims, however, are highly questionable because of significant problems with the timeliness and accuracy of the underlying data. In December 1999, the DOD Inspector General reported that asset-visibility data were being extracted from systems that consolidated the data, rather than from systems where the data originated, resulting in occasionally outdated information. Moreover, the report said only 4 of the 94 systems needed to provide accurate information about asset visibility were connected to DOD's asset-visibility system. Finally, in still another example, the Department reported that it exceeded its logistics response time goal; however, DOD officials familiar with the supporting documentation and methodology for calculating this measure said the current approach may make response times look better than they are. The underlying database used in response time calculations includes a significant number of food and medical items, which tend to be

much more readily available than other types of DOD items. As a result, these items distort overall response times.

In other instances, we found errors in DOD's reporting or changes in the benchmark for assessing 1999's performance. For example, for unfunded depot maintenance requirements, DOD said the Navy exceeded its goal by 24 percent. We found, however, that DOD's report was based on preliminary assessments; using updated figures, we found that the Navy missed its goal by 13 percent. In another example, DOD changed the benchmark for assessing public-private competitions from simply "the number of positions subject to A-76 competition studies" to "the number of positions subject to A-76 competitions or strategic sourcing reviews" (emphasis ours). The Department explained that it has undertaken strategic sourcing reviews, in which positions are evaluated for internal reorganization and consolidation, to augment potential savings from A-76 efforts. Nonetheless, had the measure's definition not changed, DOD would have missed its A-76 target. This is not to say that all information in DOD's report has problems. There were instances where we found no problems with the specific measures or where DOD provided sufficient assurances as to the credibility of the underlying data. For example, we had no reason to question DOD's figures on the excess acreage disposed of through base closures, National Defense Stockpile disposals, and building demolitions.

Unmet Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of Infrastructure and Operating Procedures are More Efficient and Cost-Effective

- Amount of National Defense Stockpile disposed of
- Defense Working Capital Fund net operating results for select areas
- Unfunded depot maintenance requirements for Army and Navy

GAO's Observations on DOD's Unmet Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of Infrastructure and Operating Procedures are More Efficient and Cost-Effective

DOD's performance report said the Department did not reach National Defense Stockpile disposal goals because of deflated commodity prices and market demand, plus legislatively imposed limitations on sales revenues for specific commodities and quantities of materials authorized for disposal. In addition, although DOD said it expects to reach its annual disposal goal for fiscal year 2000, it noted that the above factors may prevent it from achieving its cumulative disposal goal of \$2.2 billion (in fiscal year 1996 dollars) by the end of fiscal year 2000.

By contrast, DOD provided limited or no explanations for why it failed to meet certain working capital fund and unfunded depot maintenance goals. Moreover, for unfunded depot maintenance, the Department did not address how fiscal year 1999's performance might affect fiscal year 2000's performance.

These shortcomings notwithstanding, we do not believe that more detailed explanations would lend much insight into DOD's ability, in the past or in the future, to meet its overall goal of streamlining infrastructure. Reported Defense Working Capital Fund net

operating results do not necessarily show whether a working capital fund activity, such as depot maintenance, is operating inefficiently. The idea behind working capital funds is for activities to break even over time. As a result, if an activity has a profit in one-year, or a positive net operating result, it will budget for a loss, or negative operating result, the next year. Any losses, therefore, do not necessarily signal inefficiencies. An efficiency measure based on cost would be helpful. However, our financial audit work continues to show DOD's long-standing problems in accumulating and reporting the full costs associated with its working capital funds.

As for unfunded depot maintenance requirements, these measures simply show the difference between the services' estimates of the amount of depot maintenance needed to keep all equipment fully operational and the amounts actually funded in a given year's budget. They do not provide any insight into the cost or performance of depot operations.

Fiscal Year 2000 Performance Goals and Measures for the Key Agency Outcome of Infrastructure and Operating Procedures are More Efficient and Cost-Effective

DOD's performance measures and indicators for fiscal year 2000 are the same as above. Several of the specific numerical goals for the measures and indicators did change, however, from fiscal year 1999 to fiscal year 2000.

**--Unfunded Depot Maintenance Requirements**

- Goal
  - Army – \$191 million
  - Navy – \$779 million
  - Air Force – \$339 million

**--Number of Positions Subject to Public-Private Sector Competitions**

- Goal: 53,400 positions

**--Logistics Response Time**

- Goal: 18 days

**--Percentage of DOD Inventory Visible and Accessible to Inventory Managers**

- Goal: 90 percent

**--Amount of National Defense Stockpile (NDS) disposed of (in fiscal year 1996 dollars) and level of supply inventory (in fiscal year 1995 dollars)**

- Goal for NDS: \$500 million
- Goal for supply inventory: \$56 billion

**--Disposal of Excess Real Property through Base Closures and Building Demolitions:**

Excess acreage remaining for disposal through base closures

- Goal: 146,000 acres



Cumulative square feet disposed of through demolitions in fiscal year

- Goal: 41 million

**--Defense Working Capital Fund Net Operating Results**

Army

Supply Management Goal: -\$3.3 million

Depot Maintenance Goal: -\$26.7 million

Navy

Supply Management Goal: \$42.7 million

Aviation Depot Maintenance Goal: \$1.2 million

Shipyard Maintenance Goal: -\$9.9 million

Air Force

Supply Management Goal: -\$169.5 million

Depot Maintenance Goal: -\$79.5 million

U.S. Transportation Command

Transportation Goal: -\$155.3 million

GAO's Observations on DOD's Fiscal Year 2000 Planned Performance for the Key Agency Outcome of Infrastructure and Operating Procedures are more Efficient and Cost-Effective

In 1999, DOD regrouped its corporate goals to more accurately reflect resource tradeoffs between current and future needs. To reflect these changes, the Department updated and replaced its fiscal year 1999 performance plan with its fiscal year 2000 performance plan. As noted above, however, several of the numerical goals for the measures and indicators differ for fiscal year 2000 and fiscal year 1999.

DOD did not always fully discuss the reasons for specific differences. They generally make sense, however, because one would expect the numerical goals to differ each year given the nature of the indicators and measures. For example, DOD's goal for logistics response time went from 24 days for fiscal year 1999 to 18 days for fiscal year 2000. (Logistics response time measures how long a customer must wait to receive materiel through DOD's wholesale system after placing an order.) Given DOD's ongoing efforts to reduce logistics response time, the measure's associated target would logically go down over time. Similarly, as explained above, the goal of Defense Working Capital Funds is for fund activities to break even over time. One would, therefore, expect to see changes from year to year in the targets for net operating results.

Differences in numerical goals aside, the fiscal year 2000 plan represented a moderate improvement over the 1999 plan it replaced. According to our assessment last year of the 2000 plan, we found that it (1) included more baseline data for assessing progress; (2) better identified deficiencies, such as problems with financial management systems; (3) included measures for assessing progress in resolving some major management challenges; and (4) pulled information together into one document (1999's information was scattered throughout the Secretary of Defense's annual report). We also identified several weaknesses, however. For example, even though the 2000 plan provided more information on data credibility than the 1999 plan did, we felt it could have gone further

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in identifying known data deficiencies and the extent to which external evaluations, such as audits, would be used in validating performance information.

### Fiscal Year 2001 Performance Goals and Measures for the Key Agency Outcome of Infrastructure and Operating Procedures are More Efficient and Cost-Effective

The fiscal year 2001 performance plan includes a new indicator and a new category under an existing measure:

New indicator:

--**Qualitative Assessment of Defense Transportation Documentation** (no numerical goal given)

New category under existing measure:

--**Disposal of Excess Real Property through Base Closures and Building Demolitions**

- Goal: 20,000 acres disposed of during the fiscal year.

Also, the 2001 plan contained new numerical targets for many of the existing measures and indicators:

--**Percentage of DOD Budget Spent on Infrastructure**

- Goal: 42

--**Unfunded Depot Maintenance Requirements**

- Goal
  - Army – \$254 million
  - Navy – \$917 million
  - Air Force – \$223 million

--**Number of Positions Subject to Public-Private Sector Competitions**

- Goal: 37,331

--**Logistics Response Time**

- Goal: 15 days

--**Percentage of DOD Inventory Visible and Accessible to Inventory Managers**

- Goal: 94

--**Amount of National Defense Stockpile (NDS) Disposed of (in budget-year dollars) and Level of Supply Inventory (in fiscal year 1995 dollars)**

- Goal for NDS: \$427 million
- Goal for supply inventory: \$53 billion

--**Disposal of excess real property through base closures and building demolitions:**

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- Excess acreage remaining for disposal through base closures
- Goal: N/A
- Cumulative square feet disposed of through demolitions in fiscal year
- Goal: 57.7 million

#### --Defense Working Capital Fund Net Operating Results

##### Army

- Supply Management Goal: -\$27.7 million
- Depot Maintenance Goal: \$6 million

##### Navy

- Supply Management Goal: -\$68.3 million
- Aviation Depot Maintenance Goal: \$28.9 million
- Shipyard Maintenance Goal: \$3.5 million

##### Air Force

- Supply Management Goal: -\$129.5 million
- Depot Maintenance Goal: -\$34.4 million

##### U.S. Transportation Command

- Transportation Goal: \$23.9 million

Additionally, the following variations occurred between some numeric goals for performance measures included in DOD's performance plan for fiscal years 1999 and 2000 and its performance plan for fiscal year 2001:

#### --Unfunded Depot Maintenance Requirements

- Goals:
  - Army – The goals were shown as \$451 million for fiscal year 1999 and as \$174 million for fiscal year 2000 in the fiscal year 1999/2000 performance plan.
  - Navy – The goal was shown as \$581 million for fiscal year 2000 in the fiscal year 1999/2000 performance plan.
  - Air Force – The goals were shown as \$46 million and \$107 million in the fiscal year 1999/2000 performance plan.

#### --Disposal of Excess Real Property through Base Closures and Building Demolitions

- Excess acreage remaining for disposal through base closures
- Goal: The goal was shown as 145,000 for fiscal year 2000 in the fiscal year 1999/2000 plan.

#### -- Defense Working Capital Fund Net Operating Results

##### Army

- Supply Management Goal:
  - The goal was shown as \$38.2 million for fiscal year 2000 in the fiscal year 1999/2000 performance plan.
- Depot Maintenance Goal:
  - The goal was shown as break even in the fiscal year 1999/2000 performance plan.

##### Navy

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- Shipyard Maintenance Goal:  
The goal was shown as -\$2.6 million in the fiscal year 1999/2000 performance plan.  
Air Force
- Supply Management Goal:  
The goal was shown as break even in the fiscal year 1999/2000 plan.
- Depot Maintenance Goal:  
The goal was shown as -\$45.5 million in the fiscal year 1999/2000 performance plan.

### GAO's Observations on DOD's Fiscal Year 2001 Performance Goals and Measures for the Key Agency Outcome of Infrastructure and Operating Procedures are More Efficient and Cost-Effective

The 2001 performance plan's measures and indicators are essentially the same as those in the 2000 plan. The additions, as noted above, are relatively minor. They are output-oriented and, while potentially useful, will not provide further insight over past plans into whether the Department is achieving its streamlining goal.

Given that the plan's measures and indicators have not changed much, some of our concerns about the 2000 plan's weaknesses still apply. For example, we continue to believe that DOD needs more outcome-oriented measures and supporting information to help it better assess progress toward its streamlining goal. Moreover, the Department still needs to take additional actions to improve the credibility of the data underlying the measures and indicators, despite improvements in this area. And finally, as with past years' plans, the current plan generally does not show how requested budgetary resources relate to performance goals.

As for the new numerical targets included in the plan, such variations from the past plan are to be expected given the nature of the measures and indicators, just as we noted in our discussion of new targets in the previous year's plan. Moreover, although DOD did not always fully explain the reasons for specific changes in the targets, the changes were generally logical.

As for revisions to the 2000 numerical goals, DOD explained that the targets for unfunded depot maintenance requirements were revised to reflect later, final revisions to the fiscal year 2000 budget request. Moreover, although the Department did not explain the revisions to the Defense Working Capital Fund goals, one would expect the goals to undergo annual revisions because they are updated during each year's budgeting process based on the previous year's actual results.

DOD's second performance goal for the key agency outcome of Infrastructure and Operating Procedures are More Efficient and Cost-Effective is **"Improve Acquisition."**

### Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of Infrastructure and Operating Procedures are More Efficient and Cost-Effective

For fiscal year 1999, the performance goal "Improve Acquisition" had seven supporting measures and indicators:

**--Major Defense Acquisition Program Cost Growth (In percents)**

- Goal: <1.0
- Actual: +3.1 (Goal not met)

**--Major Defense Acquisition Program cycle time**

- Goal: <99 months
- Actual: 95 months (Goal met)

**--Successful Completion of System Operational Test and Evaluation Events**

- Goal: Establish methodology
- Actual: Methodology established (Goal met)

**--Purchase Card Micropurchases**

- Goal: 80 percent of purchases
- Actual: 91 percent of purchases (Goal exceeded)

**--Percentage of DOD Paperless Transactions**

- Goal: Conduct between 50 percent and 85 percent of selected transactions electronically and achieve 55 percent total electronic contracting and payment transactions
- Actual: Between 56 percent and 97 percent of selected transactions and 64 percent of total electronic contracting and payment transactions (Goal exceeded)

**--Reductions in Acquisition Workforce**

- Goal: 11.3 percent from the fiscal year 1997 baseline
- Actual: 13.8 percent (Goal exceeded)

**--Dispose of Unneeded Government Property Held by Contractors (cumulative value disposed)**

- Goal: \$3.0 billion
- Actual: \$4.57 billion (Goal exceeded)

GAO's Observations on DOD's Fiscal Year 1999 Actual Performance for the Key Agency Outcome of Infrastructure and Operating Procedures are More Efficient and Cost-Effective

The seven performance measures for the performance goal "Improve Acquisition" are tangible and concrete and allow DOD to assess its progress toward the goal. Cost growth, cycle time, purchase card usage, paper-based transactions, and acquisition workforce measures are quantifiable, and when supplied with reliable data, will show whether DOD is providing products faster and with less cost growth. After fiscal year 1999, the measure for test events will provide quantifiable data to assess, in part, if DOD

is acquiring products that work better. The measure on disposal of unneeded property held by contractors is also quantifiable.

DOD did not fully accomplish its fiscal year 1999 performance goal. Specifically, DOD did not hold reported Major Program cost growth to less than one percent annually. The cost growth rate was 3.1 percent, the largest cost growth in a decade. According to DOD, the increase primarily was in Army and Ballistic Missile Defense programs. For the 99-month average cycle time indicator, DOD projects that it will achieve a 95-month average from program start to initial operating capability. For its third measure, DOD established a methodology to monitor the structure and effectiveness of testing programs. Concerning purchasing efforts, DOD met its goals for purchase card use, paperless transactions, and acquisition workforce reductions. It also exceeded its goal for contractor-held property disposal.

DOD provides reasonable assurance that its performance measures are supported by appropriate data. Cost growth and cycle time data was collected from the annual weapon Selected Acquisition Reports and other standard program documents, such as the Acquisition Program Baseline. However, DOD should not be forced to rely on such sources as a proxy for reliable cost data developed through a disciplined financial management and reporting process that is subjected to an independent financial audit. The Office of the Director for Operational Test and Evaluation supplies testing information, which tracks the progress of test programs and monitors their quality. To track purchase card usage, DOD uses commercial bank statements compared with non-purchase card transactions. DOD considers this method reliable because it uses accounting standards established by financial institutions. Paperless transaction data is collected from field operating sites which DOD states is validated with data generated by DOD reporting systems. DOD considers these paperless transaction methods reliable because it uses standardized metric definitions and follows detailed procedures. Acquisition workforce reductions are tracked via budgeted manpower statistics and validated through the Planning, Programming, and Budgeting System process. Property disposition data is tracked by the services, reported to the Defense Logistics Agency, and reviewed by the Director of Defense Procurement.

Unmet Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of Infrastructure and Operating Procedures are More Efficient and Cost-Effective

**Major Defense Acquisition Program Cost Growth Less Than One Percent Annually**

DOD stated that in fiscal year 1999, costs increased by 3.1 percent over the prior year primarily because of cost increases in Army and Ballistic Missile Defense programs. But, the Department did not explain why costs increased. DOD does not offer any additional plans, actions, or strategies to achieve its unmet cost goal and did not change its fiscal year 2000 or 2001 performance goals or measures. DOD did state that it does not predict any shortfall in achieving its cost growth goal in fiscal year 2000, but did not explain how it arrived at that conclusion.

Fiscal Year 2000 Performance Goals and Measures for the Key Agency Outcome of Infrastructure and Operating Procedures are More Efficient and Cost-Effective

DOD's performance goal and measures for cost growth and cycle time remain the same as in fiscal year 1999. Beginning in fiscal year 2000, the measure for operational test and evaluation becomes a quantifiable assessment of the percentage of test events successfully completed (learning objectives fulfilled). The performance target is for 100 percent of test events to be successfully completed. Purchase card usage goals increase from 80 percent to 90 percent in fiscal year 2000. For paperless transactions, DOD's 1999 goals ranged from 50 percent to 85 percent for various initiatives. In fiscal year 2000, all of these goals increase to 90 percent, except for total electronic contracting and payment transactions. The goal in this area increases from 55 percent in fiscal year 1999 to 64 percent in fiscal year 2000. DOD acquisition workforce reduction goals increase from 11.3 percent in fiscal year 1999 to 15 percent from the baseline year (1997). DOD did not set a contractor-held property disposal goal for fiscal year 2000.

DOD did not assess the effects of fiscal year 1999 performance on estimated performance levels in fiscal year 2000. Additionally, DOD did not revise its means and strategies to achieve the fiscal year 2000 performance goals. DOD indicated that it has already met the fiscal year 2000 performance goal for purchase card usage and expects to meet the targets for paperless transactions. However, DOD acknowledged that the lack of widespread acceptance of digital signature and paperless Web-based transactions remains an impediment to achieving this objective. DOD expects to meet performance targets for fiscal year 2000 workforce reductions.

Fiscal Year 2001 Performance Goals and Measures for the Key Agency Outcome of Infrastructure and Operating Procedures are More Efficient and Cost-Effective

DOD's performance goal and measures remain the same as in fiscal year 1999 for cost growth and purchase card usage. The cycle time target becomes a less than 97-month average. Beginning in fiscal year 2000, the measure for operational test and evaluation becomes a quantifiable assessment of the percentage of test events successfully completed (learning objectives fulfilled). The performance target is for 100 percent of operational test and evaluation events to be successfully completed. The goal for paperless transactions, overall, is again 90 percent excluding the total electronic contracting and payment transactions portion of the indicator. The goal for electronic contracting and payment transactions increased to 90 percent for fiscal year 2001. The fiscal year 2001 performance target for acquisition workforce reduction increases to 22 percent from the baseline year (1997). The fiscal year 2001 goal for contractor-held property disposal is set at reaching a cumulative total of \$4.75 billion.

DOD's fiscal year 2001 performance plan does not address some key acquisition-related weaknesses identified earlier by GAO. For example, the cost growth and cycle time measures do not indicate whether DOD is acquiring the most cost-effective and affordable weapons available to accomplish the mission. Also, the testing measure does not necessarily indicate that a system performs as required, just that planned tests were completed.

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In April 2000, the DOD Inspector General reported concerns over the imbalance of resources and workload with the acquisition workforce. These concerns arose from such issues as loss of personnel in key job series through attrition and overall disconnects between workload forecasts, performance measures, productivity indicators, and plans for workforce sizing and training.



**Key Agency Outcome: Reduced Availability and/or Use of Illegal Drugs**Fiscal year 1999 Performance Goals and Measures for the Key Agency Outcome of Reduced Availability and/or Use of Illegal Drugs

DOD's performance plans and report did not include any performance goals or measures related to this outcome. DOD does, however, assist in U.S. efforts to reduce the availability and use of illegal drugs. It has the lead responsibility for aerial and maritime detection and monitoring of illegal drug shipments to the United States. It also provides assistance and training to foreign governments to combat drug-trafficking activities. In a December 1999 report Drug Control: Assets DOD Contributes to Reducing the Illegal Drug Supply Have Declined (GAO/NSIAD-00-9, Dec. 21, 1999), we recommended that DOD develop performance measures to determine the effectiveness of its counterdrug operations and make better use of its limited resources. DOD concurred with our recommendation and has initiated steps to develop performance measures. DOD also recognized counternarcotics as a crosscutting function in its fiscal year 1999 performance report. The report outlines the counternarcotics responsibilities of DOD and other agencies, including the White House Office of National Drug Control Policy and the Departments of State, Justice, Health and Human Services, and Education.

GAO's Observations on DOD's Fiscal Year 1999 Actual Performance for the Key Agency Outcome of Reduced Availability and/or Use of Illegal Drugs

Since DOD's performance plans and report did not include performance goals and measures for this outcome, its performance report does not indicate whether progress toward achieving the outcome is being made.

Unmet Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of Reduced Availability and/or Use of Illegal Drugs

Not applicable since DOD's performance plans and report contain no goals or measures for this outcome.

Fiscal Year 2000 Performance Goals and Measures for the Key Agency Outcome of Reduced Availability and/or Use of Illegal Drugs

No performance goals or measures were included in DOD's performance plans for this outcome.

Fiscal Year 2001 Performance Goals and Measures for the Key Agency Outcome of Reduced Availability and/or Use of Illegal Drugs

No performance goals or measures were included in DOD's performance plan for this outcome.

**Key Agency Outcome: Fewer Erroneous Payments to Contractors**Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of Fewer Erroneous Payments to Contractors

DOD had no performance goals directly related to this assessment area.

For fiscal year 1999 DOD had no performance measures directly related to this assessment area.

GAO's Observations on DOD's Fiscal Year 1999 Actual Performance for the Key Agency Outcome of Fewer Erroneous Payments to Contractors

DOD performance goals of increasing purchase card usage and the use of paperless transactions do not directly address this assessment area. To track purchase card usage, DOD uses commercial bank statements compared with non-purchase card transactions. DOD considers this method to be reliable because it uses accounting standards established by financial institutions. Paperless transaction data is collected from field operating sites which DOD claims to validate with data generated by DOD reporting systems.

While these measures do reflect quantifiable measures of the levels of usage for these contracting methods, they may not provide adequate information concerning the accuracy of the transactions.

Unmet Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of Fewer Erroneous Payments to Contractors

DOD does not have performance goals and measures directly related to this assessment area.

Fiscal Year 2000 Performance Goals and Measures for the Key Agency Outcome of Fewer Erroneous Payments to Contractors

DOD did not include any directly related performance goals and measures to address this assessment area for fiscal year 2000.

Fiscal Year 2001 Performance Goals and Measures for the Key Agency Outcome of Fewer Erroneous Payments to Contractors

DOD did not include any directly related performance goals and measures to address this assessment area for fiscal year 2001.

### Observations on the Department of Defense's Efforts to Address Its Major Management Challenges

The following table identifies the major management challenges confronting the Department of Defense. The first column lists the management challenges identified by our office and the Department of Defense Inspector General (DOD IG). The second column discusses what progress, as discussed in its fiscal year 1999 performance report, Defense made in resolving its major management challenges. The third column discusses the extent to which Defense's fiscal year 2001 performance plan includes performance goals and measures to address the management challenges that we and the DOD IG identified.

Table II.1: Major Management Challenges

Major management challenge	Progress in resolving major management challenge as discussed in the fiscal year 1999 performance report	Applicable goals and measures in the fiscal year 2001 performance plan
<p><u>Financial Management</u></p> <p>To date, no major part of DOD has been able to pass the test of an independent audit because of pervasive weaknesses in the Department's financial management systems, operations, and controls. Ineffective asset accountability and control adversely affect DOD's visibility over weapon systems and inventory, and unreliable cost and budget information affects DOD's ability to effectively measure performance and reduce costs. For example, while DOD's performance plan for 2001 includes 45 unclassified metrics, few contain efficiency measures based on costs. Such problems led us in 1995 to put DOD financial management on our list</p>	<p>The Department's 1999 performance report did not specifically discuss strategies and initiatives to address its financial management weaknesses. However, the report does make reference to Chapter 13 of the Department's Annual Report discussion of DOD's Financial Management Improvement Plan. The Plan includes hundreds of initiatives intended to address the Department's management challenge in this area. DOD has made genuine progress in many areas of its financial management operations, including (1) increased accountability over property, plant, and equipment and (2) more complete reporting of environmental and disposal liabilities.</p>	<p>The Department's 2001 Performance Plan includes for the first time, a new performance goal, "Improve DOD Financial and Information Management." Related measures are:</p> <ul style="list-style-type: none"> <li>• Reduce the number of noncompliant accounting and finance systems and</li> <li>• Achieve unqualified opinions on financial statements</li> </ul> <p>The inclusion of this performance goal and associated measures is an important step in guiding the Department's financial management improvement efforts. Achieving an</p>

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<p>of high-risk areas vulnerable to waste, fraud, abuse, and mismanagement, a designation that continued in last year's high-risk update.</p> <p>The Department of Defense Inspector General also identified this area as a top management challenge.</p>	<p>At the same time, DOD has a long way to go to effectively address pervasive, deeply rooted, and complex problems in these as well as other financial management areas that affect its ability to manage its day-to-day activities effectively.</p>	<p>unqualified opinion is an important milestone. However, the substantial efforts needed to work around DOD's serious systems and control problems to derive year-end balances will not produce the timely and reliable financial and performance information DOD needs to manage its operations every day. DOD's existing measures do not address areas that are critical to improving the Department's financial operations, including (1) how its financial management operations will effectively support not only financial reporting but also asset accountability and control, (2) how financial management ties to budget formulation, (3) how the planned and ongoing improvement initiatives will result in the target financial management environment, and (4) how acknowledged deficiencies in feeder systems' data integrity will be improved.</p>
<p><u>Information Management and Technology</u></p> <p>DOD's overarching vision statement from its Information Management Strategic Plan, dated October 1999, is "Achieve information superiority through global, affordable, and timely access to reliable and secure</p>	<p>There was no specific discussion of information management and technology in the fiscal year 1999 report. Since this is a new goal there is no assessment included in the fiscal year 1999 report.</p>	<p>In the fiscal year 2001 performance plan, DOD established a new goal, which focuses on financial and information management. However, the information management metric defined in the plan will be difficult to</p>

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<p>information for worldwide decision making and operations."</p>		<p>use as a measure of how well the Department is achieving its goals as outlined in its Information Management Strategic Plan (IMSP) dated October 1999.</p> <p>The metric is only a qualitative assessment of DOD's progress in implementing a restatement of IMSP Goal 3 (Reform IT management processes to increase efficiency and mission contribution). IMSP Goal 3 is supposed to capture the essence of the Clinger-Cohen Act of 1996 (CCA) by emphasizing the management process improvements that are needed to more effectively deliver information and services to DOD mission customers. If DOD fails to make substantial progress toward Goal 3, achievement of the vision and, therefore, realization of information superiority, are at considerable risk.</p> <p>DOD defines the following objectives for achieving IMSP Goal 3:</p> <ul style="list-style-type: none"> <li>• Institutionalize Clinger-Cohen Act provisions</li> <li>• Institute fundamental IT management reform efforts</li> <li>• Promote the development of an ITM</li> </ul>
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		<p>knowledge-based workforce within DOD</p> <ul style="list-style-type: none"> <li>• Provide the IM/IT support required to ensure individuals with disabilities have equal access to the information environments and opportunities in DOD</li> <li>• Integrate DOD IT activities</li> </ul> <p>In its fiscal year 2001 performance plan DOD restates the objectives as follows:</p> <ul style="list-style-type: none"> <li>• Institutionalization of the provisions of the Clinger-Cohen Act of 1996.</li> <li>• Institutionalization of fundamental information technology management reforms.</li> <li>• Improvements in the DOD information technology workforce.</li> </ul> <p>A strategy in the IMSP is to establish uniform organizational measures and assessment processes. This would indicate that DOD is still trying to establish the metrics required by the Clinger-Cohen Act.</p> <p>Since DOD's fiscal year 2001 performance plan includes as a metric</p>
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		<p>a qualitative assessment of a restatement of some IMSP objectives, DOD does not appear to be working toward establishment of quantitative measures. This will make monitoring IMSP success difficult.</p> <p>DOD has reported to Congress over the past several years that it is working toward establishing (as a routine management practice) strategic goals and related strategies that will be governed by formal performance measures. However, despite the establishment of an IT performance measurement strategy and implementation program for its IT investments, DOD reports (for the goals, objectives and strategies of its IM) that much effort has been expended to develop performance measures, including convening an in-process review team (IPT), with little success.</p>
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<p><u>Weapon Systems Acquisition</u></p> <p>We remain concerned about DOD's management of the weapons system acquisition process. Although DOD is working to reform its weapon system acquisitions and has many acquisition reforms in process, weapons system acquisition remains a high-risk area. We believe that pervasive problems persist regarding:</p> <ul style="list-style-type: none"> <li>• Questionable requirements and cost-effective solutions;</li> <li>• Unrealistic cost, schedule, and performance estimates;</li> <li>• Questionable program affordability; and</li> <li>• Use of high-risk acquisition strategies.</li> </ul> <p>The DOD IG believes that, for the near term, focus should be on fully implementing and carefully measuring the impact of acquisition reforms already in place.</p>	<p>DOD has made some progress towards addressing our concerns about cost, schedule, and performance estimates by establishing performance measures for cost growth, cycle time, and testing effectiveness. Furthermore, in early 2000, DOD announced that it will begin to use commercially-based business practices for weapons acquisition. GAO has repeatedly recommended this approach in order to mitigate cost, schedule, and performance risks inherent in weapons acquisitions.</p> <p>Despite these efforts, DOD's management of cost, schedule, and performance estimates is still questionable. Ongoing GAO reviews show that DOD's flagship systems, as well as many top service priorities, continue to cost significantly more, take longer to produce, and deliver less than promised. For example, while DOD indicated it achieved an average cycle time of less than 99-months in fiscal year 1999, it is still not accurately estimating the length of weapon development. In the case of the Joint Air-to-Surface Standoff Missile, development time lengthened from 56 to 78 months since the program's</p>	<p>DOD's plan contains a performance goal to "meet combat forces' needs smarter and faster, with products and services that work better and cost less, by improving the efficiency of DOD's acquisition process." The plan includes three related measures:</p> <ul style="list-style-type: none"> <li>• Major Defense Acquisition Program cost growth;</li> <li>• Major Defense Acquisition Program cycle time; and</li> <li>• Test events successfully completed (learning objectives fulfilled)</li> </ul> <p>DOD did not adopt any new goals or measures to address GAO and DOD IG concerns about management challenges.</p> <p>Furthermore, DOD's performance plans have not yet addressed our concerns about acquiring required weapons that are the most cost-effective and affordable for a mission. We continue to uncover and report on questionable mission needs and on systems that are not the most cost-effective solution. For example:</p> <p>(1) DOD has not reassessed acquisition</p>
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	inception.	<p>plans for the Joint Standoff Weapon, although the missile's capabilities have been reduced and other weapons may now be more cost-effective; and</p> <p>(2) Despite a reduced armored threat and an existing large and capable inventory of antiarmor weapons, DOD still plans to acquire large quantities of new and improved antiarmor weapons.</p> <p>DOD has not addressed GAO's concerns about questionable program affordability. For example, it is very unlikely that DOD will be able to achieve its tactical aircraft programs as planned because they were based on optimistic budget projections.</p> <p>In addition, GAO continues to identify instances of DOD's use of high-risk acquisition strategies. For example, the Army has procured 6,700 High Mobility Trailers that are not usable or suitable because it awarded a multiyear production contract without first demonstrating that the design would meet its requirements.</p> <p>DOD also faces the challenge of determining the impact of its acquisition reforms already in place. GAO and DOD IG reviews have shown</p>
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		<p>that significant reforms have not yet been reflected in management and decision-making for individual programs. In December 1999, the DOD IG noted that DOD's slow implementation actions and lack of specified performance metrics hampered efforts to determine the impact of acquisition reform on weapon programs. The DOD IG stated that DOD needed to focus on implementation and measurement of acquisitions reforms already in place, rather than propose new changes.</p>
<p><u>Contracting</u></p> <p>DOD spends over \$125 billion a year contracting for goods and services. Over the last few years, several broad-based changes have been made to acquisition and contracting processes to improve DOD-contractor relationships and rules. But we and the DOD IG continue to identify risks in contracting, including erroneous, fraudulent, and improper payments to contractors; payment of higher prices for commercial spare parts than necessary; limited guidance for nonstandard research and development contracting approaches; and inadequate competition in service contract awards.</p>	<p>While DOD met most of its performance goals for improving acquisition, these goals do not explicitly address this management challenge, except for acquisition workforce issues. To address contracting issues, DOD provides the following metrics:</p> <ul style="list-style-type: none"> <li>• The percentage of purchases made by purchase card;</li> <li>• The percentage of paperless contracting and payment transactions; and</li> <li>• The percentage reduction in acquisition workforce personnel.</li> </ul>	<p><u>None.</u> The metrics used by DOD to address concerns in Defense contracting remain unchanged for fiscal year 2001. DOD has increased its goals for purchase card use, paperless transactions, and workforce reductions, but has not included any new goals to better address this management challenge.</p>

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<p>The DOD IG also expressed concerns related to the reduced size of the Defense acquisition workforce.</p> <p>Additionally, the DOD IG reported a lack of good cost information and significant levels of fraud, mostly by providers, in the Military Health System.</p>	<p>The metric related to workforce issues is based solely on personnel reductions and may not adequately consider the impact of these reductions as indicated by DOD IG. DOD states that it is attempting to address workforce concerns through human resource actions such as maintaining a quality workforce, the proper mix of skills, and adequate training.</p>	
<p><u>Streamlining the Defense Infrastructure</u></p> <p>The Department of Defense has recognized that it must reduce the size of its infrastructure to more efficiently meet its needs. The task is difficult and painful, however, because achieving reforms requires making up-front investments, closing installations, eliminating jobs, and overcoming cultural resistance to change.</p> <p>The Department of Defense's Inspector General has also identified this area as a management challenge.</p>	<p>The Department of Defense has undertaken a series of initiatives to reduce its infrastructure. Its fiscal year 1999 performance report stated that the Department has made "steady progress" and that it met many of its targets for the specific measures and indicators being used to help assess its streamlining efforts. Our ongoing work confirms that the Department is indeed continuing to try to address this important area. We do not believe, however, that the performance measures and indicators in the Department's performance report are the best means for gauging how well the Department is doing. Some measures provide little insight into whether the infrastructure is actually being streamlined, while others have</p>	<p>The performance plan includes a performance goal to "Streamline Infrastructure Through Business Reform." Related measures and indicators are:</p> <ul style="list-style-type: none"> <li>• Number of positions subject to A-76 competitions or strategic sourcing reviews</li> <li>• Logistics response time</li> <li>• Percentage of inventory visible and accessible to inventory managers</li> <li>• Amount of National Defense Stockpile and level of supply inventory</li> <li>• Disposal of excess property through base closures and building demolitions</li> <li>• Percentage of budget spent on infrastructure</li> </ul>

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	underlying data problems that undercut their credibility.	<ul style="list-style-type: none"> <li>• Unfunded depot maintenance requirements</li> <li>• Defense Working Capital Fund net operating results</li> <li>• Qualitative assessment of Defense transportation documentation</li> </ul> <p>Except for the new indicator on Defense transportation documentation, all measures are essentially the same as those used to assess fiscal year 1999's performance.</p>
<p><u>Inventory Management</u></p> <p>In the past, we have reported that DOD's inventory management practices continue to be ineffective and inefficient, and are not well suited to meet new missions and warfighting strategies. As a result, DOD spends more than necessary to procure inventory, yet items are not available when needed. Thus, inventory management remains a high-risk area.</p> <p>The DOD IG also reported supply inventory management as a high-risk area. The Inspector General stated that although DOD has substantially downsized its force structure, it has not reduced operations and support costs</p>	<p>The reduction of inventory is an excellent measure and DOD has made progress in reducing its inventory. However, DOD needs to address other issues. It must reduce inventories that are not needed to meet current requirements. Having 60 percent of the total inventory in this category is simply too much. DOD also must do a better job of canceling orders for inventory that are excess to current requirements. DOD must recognize that the primary purpose of the supply inventory program is to serve the customer. Spending limited funds to maintain and purchase unneeded inventory prevents these funds from being used for priority customer needs.</p>	<p>The performance plan includes four performance measures and indicators related to inventory management. They are:</p> <ul style="list-style-type: none"> <li>• logistics response time;</li> <li>• the dollar amount of National Defense Stockpile disposals and reductions in the supply inventory;</li> <li>• the percentage of materiel assets that are visible and accessible to Integrated Materiel Managers; and</li> <li>• the dollar amount of unfunded depot maintenance requirements.</li> </ul>

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<p>commensurately. The IG additionally reported shortages of spare parts, incomplete total asset visibility initiatives, and inappropriate disposal practices.</p>	<p>The DOD IG reported that DOD needs to improve processes for:</p> <ul style="list-style-type: none"> <li>• Managing materiel and stock;</li> <li>• Identifying and canceling excess materiel purchases;</li> <li>• Eliminating unnecessary items; and</li> <li>• Efficiently distributing items.</li> </ul>	
<p><u>Military Personnel</u></p> <p>We reported that DOD's personnel programs to recruit and retain a high-quality active-duty enlisted workforce have not received the management attention needed to ensure their successful operation. The military services recruit tens of thousands of new enlistees each year that fail to complete their contracts. Our work identified the need to improve recruitment operations and reduce the early attrition of new recruits.</p>	<p>DOD has not made significant progress in improving recruitment and reducing early attrition in fiscal year 1999. Both the Army and the Air Force missed their recruiting goals for fiscal year 1999.</p>	<p>The performance plan includes a performance goal to "recruit, retain, and develop personnel to maintain a highly skilled and motivated force capable of meeting tomorrow's challenges." The plan includes three related performance measures. They are:</p> <ul style="list-style-type: none"> <li>• The number of enlisted recruits inducted into the Active Force and Selected Reserve;</li> <li>• Quality benchmarks for enlisted recruiting; and</li> <li>• Active Component enlisted retention and Selected Reserve enlisted attrition rates.</li> </ul> <p>DOD has established new recruiting goals for fiscal year 2001. The goal for the active force increased over the levels for fiscal years 1999 and 2000,</p>

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		<p>while the goal for the Selected Reserve decreased. DOD's performance plan identifies several initiatives that the services intend to implement to address recruiting shortfalls. These initiatives include increasing the number of recruiters, expanding advertising budgets, sponsoring television ads, providing enhanced enlistment incentives, and expanding the recruitment of prior service personnel.</p>
<p><u>Military Readiness</u></p> <p>The DOD IG reported that DOD has difficulties in maintaining sufficient military readiness at constrained budget levels. In addition to financial problems, the IG reported concerns about the impact of changes in the threat environment; increased operating tempo; adequacy of training; accuracy of reporting for unit-level readiness; and weaknesses related to chemical and biological defense preparedness and communications capability.</p>	<p>The Department's fiscal year 1999 performance report stated that DOD failed to meet some training and operational tempo targets in recent years, due largely to the demands of contingency response missions such as Operation Allied Force. The Department reported that it has implemented a variety of initiatives for fiscal years 2000 and 2001 to mitigate the effects of several years of persistently high operational tempos and to avoid any long-term degradation in force readiness. The details of these initiatives are discussed in the Department's 2000 <u>Annual Report to the President and the Congress</u>.</p>	<p>The performance plan includes a performance goal to "maintain ready forces and ensure they have the training necessary to provide the United States with the ability to shape the international security environment and respond to a full spectrum of crises." The plan includes classified measures for the readiness of each service's forces.</p> <p>The plan also includes several related performance indicators and measures, including the:</p> <ul style="list-style-type: none"> <li>• Amount of time military personnel are deployed;</li> <li>• Number of flying hours per month, by service;</li> </ul>

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		<ul style="list-style-type: none"> <li>• Number of tank miles per year;</li> <li>• Number of steaming days per quarter; and</li> <li>• Classified indicators for the percentage of billets filled in each service.</li> </ul> <p>No goals and measures were established related specifically to chemical and biological defense. However, aspects of chemical and biological defense such as fixed facility decontamination and collective protection in high threat areas are largely unresolved.</p>
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<p><u>Turbulence From Change</u></p> <p>The Department of Defense has a number of reengineering, modernization and streamlining efforts under way. While necessary, these efforts also create significant management challenges, such as maintaining high worker productivity and morale, ensuring appropriate internal controls, and preventing initiatives from working at cross purposes.</p> <p>The DOD IG has identified this area as a management challenge.</p>	<p>The Department of Defense's fiscal year 1999 report does not address this area. It is therefore impossible to assess whether the Department has made progress in surmounting this management challenge. The report did provide information, however, on related topics. For example, the Department reported that it was unable to recruit as many personnel as hoped, while its success in attaining retention goals was mixed. Both areas can be affected by turbulence. Recruiting problems, however, were largely blamed on the strong U.S. economy and low unemployment rates.</p>	<p>None. The performance plan does, however, contain measures and indicators on related topics. These include deployment tempos, which can contribute to turbulence, and recruiting and retention, which can suffer because of turbulence.</p>
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Comments From the Department of DefensePROGRAM ANALYSIS  
AND EVALUATIONOFFICE OF THE SECRETARY OF DEFENSE  
1800 DEFENSE PENTAGON  
WASHINGTON, D.C. 20301-1800

June 16, 2000



Mr. David R. Warren  
Director, Defense Management Issues  
National Security and International Affairs Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Warren:

This is the Department of Defense (DoD) response to the GAO draft report, "RESULTS ACT: Observations on the Department of Defense's Fiscal Year 1999 Performance Report and Fiscal Year 2001 Performance Plan," dated May 31, 2000 (GAO Code 709509/OSD Case 2023).

For the past three years, the Department has engaged in a positive exchange with the GAO in an effort to improve and mature DoD's annual performance plans, in accordance with the standards established in the 1993 Government Performance and Results Act (GPRA). Over time, we have incorporated many of GAO's recommendations and now have a good model for GPRA reporting. We believe our most recent performance plan and report provide a comprehensive, executive-level overview of how the Secretary of Defense manages performance to achieve the outcomes required by the defense strategy.

The Department has worked hard to focus its GPRA submissions at an executive level, and to present key performance information in a format that is understandable to the non-defense expert. It is clear we have made some progress toward this goal, since last month George Mason University's Mercatus Center ranked our first-ever FY 1999 performance report as among the top third in government, and as a model for data presentation. We were pleased to hear when we met with your staff this week that GAO does not intend for DoD to add to its FY 2002 performance report all the items discussed in the appendix to the GAO assessment. We agree the presentation of our FY 2002 performance plan could be enhanced by a somewhat fuller narrative description of performance outcomes within the context of overall DoD performance management. However, we do not believe that simply measuring *more things* in *more detail* would give either the Congress or the public a clearer picture of how the Secretary and his senior staff manage the Department's long-term performance.

More important, we do not concur with the conclusion a reader might infer from the GAO assessment that GPRA is intended to be the sole venue for reporting on performance management in the Department. Each of the military services and defense agencies develops its own performance measures, which in turn are used to monitor progress toward the higher-level goals and metrics in the DoD-wide plan. In addition,

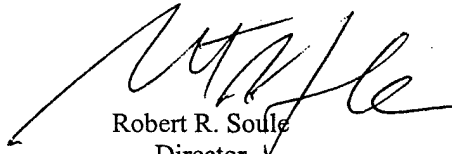


functional reports prepared at the DoD level focus very specifically on particular areas of defense activity.

For example, our FY 2003 budget justification material will provide information on performance measures of effectiveness for the counterdrug program—an initiative we discussed in detail a few weeks ago with the GAO staff. Sensitive but very complete information on the readiness posture of active and reserve component forces—including overall readiness ratings for National Guard units—is included in the classified *Quarterly Readiness Report to Congress*. Progress on improving the contract payments process and improving financial accountability across the Department is discussed in the *Financial Management Improvement Plan* (FMIP)—in fact, the current FMIP notes we will begin testing the prototype of an improved contract payment management system in July. Our corporate-level goals for acquisition management aggregate individual goals monitored rigorously and documented in many supporting reports, such as Selected Acquisition Reports and Acquisition Program Baselines. Progress on the transition of concepts to system development is reported annually in the Joint Warfighting Science and Technology Plan and biennially in Defense Area Technology Plans.

All of these documents—plus testimony, periodic study reports and evaluations, and other public statements—provide additional and topical details on how the Department conducts the public's business. It would be both costly and unnecessary to reprise such functional-level information in our GPRA submissions. We do not see how overwhelming Congress or the public with data would help them better evaluate the progress the Department is making toward achieving the goals set in the defense strategy.

A key goal of the GPRA legislation is to increase confidence in government. We will continue to work with the Congress and GAO as we present future GPRA strategic plans, performance plans, and performance reports, so that our GPRA activities reflect a full and effective implementation of the law.



Robert R. Soule  
Director  
Program Analysis and Evaluation